

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 89-9-E - ORDER NO. 89-572  
MAY 31, 1989

IN RE: Duke Power Company - Adjustment ) ORDER APPROVING  
of Base Rates for Fuel Costs ) BASE RATES FOR  
 ) FUEL COSTS

On November 30, 1988, the Commission issued its Order No. 88-1233 in the instant Docket whereby the Commission, inter alia, proceeded with the statutory method utilized for the recovery of the costs of fuel used in electric generation by Duke Power Company (the Company) to provide service to its retail electric customers. The procedure followed by the Commission is set forth in the South Carolina Code of Laws, §58-27-865 (A) (Cum. Supp. 1988).

On February 16, 1989, the Commission's Executive Director instructed the Company to cause to be published a prepared Notice of Hearing in newspapers of general circulation in the Company's service area and directed the Company to furnish by bill insert, or otherwise, the prepared Notice of Hearing to each customer on or before April 10, 1989. The Notice of Hearing described the general nature and purposes of the proceeding and indicated the manner in which interested parties might file the appropriate pleadings in order to participate in the proceeding. The Notice stated that a public hearing was scheduled to be held in the Offices of the Commission on May 24, 1989. The Company subsequently submitted

affidavits indicating compliance with the instructions of the Executive Director. The Notice of Hearing was duly published in the State Register.

On April 13, 1989, the Executive Director issued a Letter, pursuant to R.103-869 of the Commission's Rules of Practice and Procedure whereby the Company was directed to prefile with the Commission and serve on all parties of record the testimony and exhibits of the witnesses it intended to present at the hearing on or before April 26, 1989. The Commission Staff and all other parties of record were instructed to serve on all parties of record and file with the Commission on or before May 10, 1989, copies of the prepared direct testimony and exhibits of each witness intended to be offered at the hearing previously scheduled in this proceeding. The Company and the Commission Staff subsequently served and filed certain prepared testimony and exhibits.

Thereafter, pursuant to notice duly given in accordance with the applicable provisions of law and with the Commission's Rules of Practice and Procedure, a public hearing in the instant proceeding was held in the Offices of the Commission on May 24, 1989. Steve Griffith, Esquire, and Larry Porter, Esquire, represented the Company; Nancy J. Vaughn, Esquire, represented the Intervenor, the Consumer Advocate of South Carolina; and Sarena D. Burch, Esquire, represented the Commission Staff. The record before the Commission consists of the testimony of two witnesses on behalf of the Company, two witnesses on behalf of the Commission Staff and three exhibits.

The record of this proceeding indicates that for the period from October 1988 through March 1989, the Company's actual total fuel costs for its electric operations amounted to \$336,091,733.

Staff reviewed and compiled a percentage generation mix statistic sheet for the Company's fossil, nuclear and hydraulic plants for October 1988 through March 1989. The fossil generation ranged from a high of 43% to a low of 22%. The nuclear generation ranged from a high of 78% to a low of 56%. The percentage of generation by hydro ranged from 0% to 3%.

During the October 1988 through March 1989 period, coal suppliers delivered 4,135,536 tons of coal at a weighted average received cost per ton of \$46.06. The Commission Staff's audit of the Company's actual fuel procurement activities demonstrated that the average monthly received cost of coal varied from \$44.29 per ton in February 1989 to \$47.87 per ton in November 1988.

Mr. R. H. Hall, Jr., Manager-Fuel Purchases of Duke Power Company, testified regarding Duke's fuel procurement practices during the period.

The Commission Staff conducted an extensive review and audit of the Company's fuel purchasing practices and procedures for the subject period. The Staff's accounting witness, Bruce Hulion, testified that the Company's fuel costs were supported by the Company's books and records.

The Company's witness Stimart proposed that the Commission approve a fuel component in the base rates of 1.0750 cents per kwh for the six (6) months ending November 30, 1989.

The Consumer Advocate renewed the motion it made in the previous Duke fuel hearing on November 29, 1988 in Docket No. 77-394-E that if the Commission found that certain contracts referred to in the hearing by code as A, C & D were imprudently entered into, then the Commission should disallow the difference between those contract prices and what it would cost to enter into a long-term contract today. The Commission's ruling on this motion in Docket No. 77-394-E, Order No. 88-1233 was as follows:

First, upon review of the evidence of this proceeding, the Commission is convinced that the contracts referred to as A, C & D were entered into prudently. The evidence in this proceeding showed that these contracts were entered into after the sale of the Eastover Mining Properties that had been owned by Duke. These contracts were negotiated with the purchasers of those properties. The evidence was that the price was favorable to that which could have been obtained from other sources. These contracts also replaced a larger contract at a higher price. These contracts were for a shorter period. The evidence indicated that Duke acted in a prudent manner. Mr. Hall testified that the market for coal in 1983 was different from the market today. He also testified that the total cost of coal is the FOB mine price plus the freight rate. The cost of freight is not just the length of the haul. Unit trains, ownership of the equipment and loading time at the mine all enter into the total cost of coal per ton. The Commission finds that when all of these matters in the record before us are taken into consideration, contracts A, C & D were reasonable and prudent. Furthermore, it would be speculation as to what contracts A, C & D could be replaced for in today's market. Therefore, the Consumer Advocate's motion to disallow certain fuel costs is denied.

The Commission denies the Consumer Advocate's renewed Motion for the same reasons as were set forth in Order No. 88-1233 quoted above.

The Commission recognizes that the approval of the currently

effective methodology for recognition of the Company's fuel costs requires the use of projected or anticipated costs of fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and the projected costs of fuel would occur during the period and would likely exist at the conclusion of the period. §58-27-865, supra, establishes a procedure whereby the difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

The record of this proceeding indicates that the comparison of the Company's fuel revenues and expenses produces an overrecovery of \$1,755,527 through May 1989. This overrecovery represents approximately 1.81% of the fuel costs allocated to the Company's South Carolina retail electric operations for the period December 1988 through May 1989. The Commission further finds and concludes that the Company's estimated fuel costs during the period June 1989 through November 1989, including the \$1,755,527 fuel cost for overrecovery, amount to \$101,514,000.

The Commission's Staff witness William O. Richardson, Utilities Engineer Associate, demonstrated that the projected fuel cost for the six (6) month period ending November 1989 including the overrecovery would be recovered by the establishment of a fuel component of 1.1399 cents per kwh in the base rates. Based upon that determination, the Commission Staff recommended that the fuel

component in the base rates remain at 1.0750 cents per kwh to afford the Company an additional incentive to exercise efficiencies in fuel purchasing and energy generation.

The Commission has carefully reviewed the proposals advanced by the Company and the Commission Staff in regard to an adjustment to the fuel component in the Company's base rates. The Consumer Advocate participated through cross-examination of the witnesses but did not make a specific recommendation as to an appropriate fuel component. Based upon our full review of the record in this proceeding, the Commission is of the opinion, finds and concludes, that the recommendations as proposed by the Company and the Staff are fair and reasonable and should herein be approved, effective commencing with the Company's June billing cycles. Based upon the projected fuel costs and energy sales through the next six (6) months, the operation of a fuel component of 1.0750 cents per kwh will produce a cumulative underrecovery of fuel costs in an amount of \$5,596,593 for the period ending November 30, 1989.

The Commission finds and concludes that the estimated fuel cost of \$101,514,000 (including the \$1,755,527 estimated fuel cost overrecovery) for the period June 1989 - November 1989 is a reasonable estimate.

The Commission considers that the adoption of the fuel cost level herein reasonably reflects the projected average costs of fuel for the entire period and will likewise serve to encourage the Company to continue its efforts in the exercise of reasonable prudence and efficiency in its fuel purchasing practices.

Furthermore, our determinations should provide the Company a reasonable opportunity to recover the costs of fuel which it will incur throughout the succeeding period, consistent with the express purpose of §58-27-865, supra.

IT IS THEREFORE ORDERED:

1. That a fuel component of 1.0750 cents per kwh be, and hereby is, approved for Duke Power Company, effective on bills rendered on and after June 1, 1989.

2. That the Company comply with the Notice requirements set forth in S.C. Code Ann., §58-27-865 (A) (Cum. Supp. 1988) and when applicable provide the Commission certification, within thirty (30) days of compliance, that this notification has been furnished.

3. That Duke Power Company file with the Commission for approval, within ten (10) days of the date of this Order, rate schedules designed to incorporate our findings herein, and an Adjustment for Fuel Costs, as demonstrated in Appendix A, attached hereto and incorporated by reference.

4. That the Company continue to file the monthly reports previously required in this Docket.

5. That the Company account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.


6. That the Company submit monthly reports to the Commission of fuel costs and scheduled and unscheduled outages of generating

units with a capacity of 100 MW or greater.

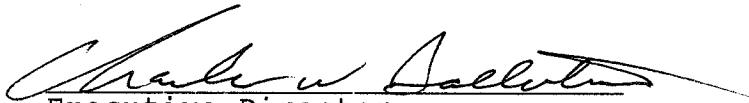
7. That the renewed motion to disallow fuel expense differences between certain negotiated contracts and the current market price made by the Consumer Advocate is hereby denied.

8. That this Order remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)



ADJUSTMENT FOR FUEL COSTS

APPLICABILITY

This adjustment is applicable to and is a part of the Utility's South Carolina retail electric rate schedules.

The Public Service Commission has determined that the costs of Fuel in an amount to the nearest one ten-thousandth of a cent, as determined by the following formula, will be included in the base rates to the extent determined reasonable and proper by the Commission for the succeeding six months or shorter period:

$$F = \frac{E}{S} + \frac{G}{S_1}$$

Where:

F = Fuel cost per kilowatt-hour included in base rate, rounded to the nearest one ten-thousandth of a cent.

E = Total Projected system Fuel costs:

- (A) Fuel consumed in the Utility's own plants and the Utility's share of fuel consumed in jointly owned or leased plants. The cost of fossil fuel shall include no items other than those listed in Account 151 of the Commission's Uniform System of Accounts for Public Utilities and Licensees. The cost of nuclear fuel shall be that as shown in Account 518 excluding rental payments on leased nuclear fuel and except that, if Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account.

Plus

- (B) Purchased power fuel costs such as those incurred in unit power and Limited Term power purchases where the fuel costs associated with energy purchased are identifiable and are identified in the billing statement.

Plus

- (C) Interchange power fuel costs such as Short Term, Economy and other where the energy is purchased on economic dispatch basis.

Energy receipts that do not involve money payments such as Diversity energy and payback of storage energy are not defined as purchased or interchange power relative to this fuel calculation.

Minus

- (D) The cost of fuel recovered through intersystem sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.

Energy deliveries that do not involve billing transactions such as Diversity energy and payback of storage are not defined as sales relative to this fuel calculation.

S = Projected system kilowatt-hour sales excluding any intersystem sales.

G = Cumulative difference between jurisdictional fuel revenues billed and fuel expenses at the end of the month preceding the projected period utilized in E and S.

S<sub>1</sub> = Projected jurisdictional kilowatt-hour sales for the period covered by the fuel costs included in E.

The appropriate revenue-related tax factor is to be included in these calculations.

THE FUEL COST F AS DETERMINED BY SCPSC ORDER NO. 89-572 FOR THE PERIOD JUNE 1989 THROUGH NOVEMBER 1989 IS 1.0750 CENTS PER KWH.